

C

Columbia Gas[™]
of Kentucky
A NiSource Company

P.O. Box 14241
Lexington, KY 40512
(859) 288.0215
Fax: (859) 288.0258

April 20, 2004

Mr. Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

RECEIVED

APR 20 2004

PUBLIC SERVICE
COMMISSION

Dear Mr. Dorman:

Columbia Gas of Kentucky, Inc., is in receipt of your March 22, 2004 letter regarding the process to retain a consultant to evaluate the Customer Choice program, pursuant to the Commission's Order in Case No. 1999-00165. The purpose of this letter is to request that the Commission postpone the audit process pending a decision by Columbia that would confirm discontinuance of the program or provide reasonable certainty that Columbia intends to file a revision to the pilot program.

The Customer Choice program was, developed in collaboration with the Office of the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government and the Community Action Council for Fayette, Bourbon, Harrison and Nicholas Counties along with FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation. In April 1999 Columbia filed its initial application seeking Commission approval of the pilot program. At that time, there was significant momentum in the energy industry and among some regulators for initiatives such as the pilot program, which provide customers with a choice of commodity suppliers.

The Commission did not approve Columbia's program as proposed, but offered a modified program if Columbia chose to accept it. Columbia voluntarily accepted the pilot program and those customers who chose to participate began purchasing natural gas from approved marketers in November 2000. In December 2000 and into 2001, natural gas prices spiked drastically. With the ensuing volatility of natural gas prices, the "Enron" fallout, the well-publicized problems with the Atlanta Gas Light program, and the troubling deregulation experiences in California, the zeal appears to have waned among some industry sectors and some regulators for this type of "deregulated" commodity option. While there are some success stories, the environment is much different today than it was five years ago when Columbia initially sought approval of its pilot program.

Columbia's Customer Choice program is the only program of its kind in Kentucky. It is scheduled to terminate on March 31, 2005, pursuant to Commission order. Columbia is planning to meet with interested parties prior to making a decision on whether the pilot program should be allowed to expire or whether to request that the program be continued, most likely with modifications. If Columbia decides to seek a continuation of the Choice program, it will need to notify the Commission in the Fall of this year and make the necessary filings. Because of the current uncertainty regarding the continuation of its Customer Choice program, Columbia requests that the Commission suspend its planned audit of the Choice Program, pending Columbia's decision its future.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Joseph W. Kelly
President

A handwritten signature in black ink, appearing to read "Joe Kelly", written over a horizontal line.